Council of the
European Union

Brussels, 11 June 2019
(OR. en)

9956/19

ECOFIN 573
UEM 186
SOC 440
EMPL 336
COMPET 478
ENV 560
EDUC 287
RECH 319
ENER 318
JAI 639
FSTR 104
REGIO 140

NOTE

From:	General Secretariat of the Council
To:	Delegations
Subject:	European Semester - Horizontal report on Country-Specific Recommendations

Delegations will find attached …

“Horizontal note” to ECOFIN: The CSR package 2019 and taking stock of 10 years of Europe 2020

Chapter 1: The 2019 CSR proposals from the Commission (Joint EPSCO/ECOFIN).

Europe's economy is expected to continue growing this and next year, albeit at a slower pace. Private investment has returned to its pre-crisis level and is set to continue expanding, but at a slower pace, whereas public investment remains below its pre-crisis level. Employment has reached its highest ever-recorded level, though with considerable divergences between countries. While remaining markedly above its pre-crisis level, overall public debt has declined.

The Commission indicates that the correction of macroeconomic imbalances is taking place but further policy action is required. While large external deficits have been corrected, large current account surpluses, despite some modest signs of adjustment, persist in several countries. The Commission’s assessment is that Member States with current account deficits or high external debt need to sustain improvements in competitiveness, while Member States with large current account surpluses should strengthen the conditions for wage growth and investment.

After 8 years of the Semester, reform implementation remains uneven. The Commission indicates that more than two thirds of the CSRs issued until 2018 have seen at least "some progress" in implementation. Annual progress with the implementation of the 2018 CSRs is lower than in previous years. In view of the remaining economic and social challenges and downside risks to the economic outlook, stronger reform prioritisation and implementation of reforms are crucial to strengthen the resilience of EU economies, to strengthen sustainable and balanced growth, tackle macroeconomic imbalances, and deliver sustained economic and social convergence.

The Commission's 2019 CSR proposals encourage Member States to increase growth potential by modernising economies and further strengthening resilience. The proposals again promote the "virtuous triangle" of (i) boosting investment, (ii) pursuing effective reforms that foster sustainable and inclusive growth, and (iii) sound fiscal policies. The Commission underscores the need for both a stronger reform momentum and the prioritisation of reforms aimed at sustainable and inclusive growth. This includes increasing the impact and scale of innovation and ensuring the quality and labour market relevance of skills. Fostering social inclusion, protecting and promoting investment, and raising the quality of public finances are key to smoothen the impact of slower growth on employment and inequality. The proposed CSRs place particular focus this year on facilitating investment. All the Member States received a draft investment related recommendation. The Council has already recognised that investment is crucial for delivering the EU’s objective of a low-carbon, circular economy[1] and has reiterated that further structural reforms should be prioritised to remove bottlenecks to investment, increase growth potential, further improve the institutional and business environment, and strengthen both administrative efficiency and regulatory quality[2].

Public finances and taxation: the proposed recommendations call for the rebuilding of fiscal buffers in Member States with high levels of public debt and increasing the public investment in those Member States where fiscal space is available and where investment levels are deemed to be low. The impact of an ageing population poses sustainability and adequacy challenges that call for reforms of the pension and healthcare systems as proposed in the CSRs for a number of Member States.

Several Member States received a proposed recommendation to shift the tax burden away from labour to encourage more sustainable growth. Some Member States also received proposed recommendations to address features of the tax system that may facilitate aggressive tax planning practices.

[1] European Semester 2019 - Annual Growth Survey: Macroeconomic and Fiscal Guidance to Member States – ECOFIN Council conclusions

[2] ECOFIN Council conclusions on In-depth reviews and implementation of the 2018 Country Specific Recommendations

Labour market, education and social policies:

While labour market conditions keep improving, there are still considerable divergences between countries, regions and population groups, with some Member States experiencing labour shortages, whereas others are still affected by high unemployment rates. Wage growth is picking up at differentiated speeds, whilst real wage developments for the euro area as a whole remain moderate. The proposed CSRs promote targeted investment to strengthen the effectiveness of active labour market policies. Alongside this, some Member States are recommended to tackle the high share of workers on temporary contracts or atypical working arrangements, including by promoting transitions towards open-ended jobs. Gender inequalities persist, often due to a lack of affordable childcare and long-term care, as highlighted in a number of recommendations.

Investing in human capital is key to boosting productivity and growth. The proposed CSRs promote the strengthening of education and training systems in many Member States, including by improving their labour market relevance, by promoting adult learning and by increasing the capacity of vocational education and training. Additional efforts are needed to improve quality and inclusiveness of education and training systems.

Poverty is declining, but it remains high in some Member States, including in-work poverty. Moreover, some vulnerable groups, such as children, people with disabilities and people with a migrant background, face persistent challenges. Many CSRs are proposed to improve the coverage, adequacy or effectiveness of the social protection systems, including minimum income schemes, and to foster access to quality social services. Recommendations to enhance the adequacy and sustainability of the pensions systems feature prominently in the 2019 Country Specific Recommendations, as well as to ensure the accessibility, affordability, and quality of sustainable healthcare for all.

Investment, competitiveness policies, and (an) improved business environment to deliver higher productivity: The proposed CSRs place additional focus on investment, with the intention to single out investment priorities with high macroeconomic return, and take into consideration regional disparities. They also point to regulatory and structural bottlenecks that hinder both public and private investment and long-term and inclusive growth potential. The Commission also promotes the opportunity of utilising EU funds to help address the investment needs identified in the proposed CSRs. With a stronger proposed policy link between the European Semester and EU funding for 2021-2027, the exercise of programming the next cohesion funds is crucial. The dialogue with national authorities has just begun and the Commission stresses that the proposed CSRs provide an analytical framework to inform the programming of EU funds.

Further structural reform priorities outlined by the Commission include strengthening financial stability and reducing non-performing loans, addressing bottlenecks in housing supply, addressing sector-specific regulation and lowering the administrative burden.

The Council has called on Member States to take advantage of the relatively favourable economic climate to push forward with structural reforms to strengthen sustainable and balanced growth, tackle macroeconomic imbalances, and deliver sustained economic and social convergence.

Member States have already expressed support for the Commission's analysis of the socio-economic challenges facing Europe and broadly agree that concrete policy action would address these challenges[3].

Member States broadly welcome the policy guidance in the draft CSRs.

[3] European Semester 2019 - Annual Growth Survey: Macroeconomic and Fiscal Guidance to Member States – ECOFIN Council conclusions

Chapter 2: Investment, financial markets and fiscal policy priorities across the EU Member States

Investing in Europe: Investment rates took a heavy hit in the economic crisis, but the economic recovery and the Investment Plan for Europe have contributed to a general pickup in investment during the last years. Whilst investment has now returned to pre-crisis levels, this pick-up has been uneven across sectors, countries and types of assets. Differences persist between investment in the public and the private sector, with public investment only starting to pick up in 2017. Investment, and particularly in R&D expenditure, remains a smaller share of GDP compared to global competitors like the U.S and China. Increasing uncertainties in global markets underline the importance of the single market and additional reform efforts at Member State level to make progress in the integration of its digital, energy capital and transport dimensions.

Member States are aware of the range of bottlenecks that impede investment, ranging from getting hold of the right skills, to business environment impediments like sector specific regulations, ineffective insolvency frameworks and so forth. The opportunity provided by the current period of economic growth should therefore be used to promote investment inter alia in the modernisation and transition to climate-neutrality of Europe's industry, transport and energy systems and in education, training and skills.

European Funding can play an important role for a number of Member States in addressing investment needs. The proposed CSRs provide guidance to inform the programming of EU funds for the 2021-2027 period, whilst stressing the need to maintain sufficient flexibility that allows Member States to tailor funding to country specificities.

Member States broadly welcome the focus on investment and reform needs.

Financial markets: While the robustness of the financial sector has increased since the crisis, vulnerabilities remain to be addressed. In particular, the enforcement and supervision of the anti-money laundering framework needs to be further strengthened.

Strengthening fiscal sustainability: General government debt ratio*:* has declined on aggregate, but progress is uneven. Some Member States with high government debt, have insufficiently taken advantage of the favourable cyclical conditions and low interest rates in recent years to rebuild fiscal buffers which reduces policy space in the event of an economic downturn. Other Member States have reached sound budgetary positions, providing them with fiscal space to support investment. On aggregate, the euro area fiscal stance is, based on the Commission Spring forecast, projected to become slightly expansionary in 2019.

The strengthening of fiscal sustainability of the Member States requires differentiated national policies in full respect of the Stability and Growth Pact, taking into account fiscal space and spillovers across countries. With economic growth slowing down, the Commission considers a differentiated approach is even more warranted. Member States with high debt levels should continue rebuilding fiscal buffers while fostering the resilience and growth potential of their economies. Doing so would also reduce their vulnerability to shocks and allow for the full functioning of automatic stabilisers in the event of a downturn.

The Commission's proposed CSRs set a required fiscal adjustment effort consistent with the Stability and Growth Pact for Member States that have not yet reached their medium-term budgetary objective. For Member States that have adequate fiscal space and low levels of investments the Commission recommends increasing public investment to support growth and facilitate economic rebalancing.

Improving the quality and composition of public finances is also an important element of Member States' fiscal policy.

Chapter 3: Progress towards the Europe 2020 targets

Launched almost 10 years ago the Europe 2020 strategy emphasises smart, sustainable and inclusive growth as a way to strengthen the EU economy, foster job creation and promote social cohesion, and prepare for the challenges of the decade ahead. The headline targets cover five areas: employment, research and development, climate change and energy, education and poverty and social exclusion. Amidst the changing economic conditions encountered during this decade, the success of the Europe 2020 strategy in achieving these targets has been mixed.

Since 2008, substantial progress has been made in the area of ***climate change and energy*** yet much more needs to be done: the greenhouse gas emissions target of a 20% reduction relative to the 1990 level has been met, with a more ambitious target on the horizon. The gap to the 20% share of renewable energy is steadily narrowing and, if the current trend continues, will be closed by 2020. The share of renewable energy in gross final energy consumption was 17.0% in 2017[4] having increased on average 5.5% per year since 2008. Similar progress is being made on the target for a 20% increase in energy efficiency, which should be reached by 2020 if current trends continue.

Positive developments are also visible in the area of ***education***. According to the most recent data, the 40% target of population aged 30-34 with tertiary education was surpassed[5] in 2018, though a number of Member States are still below their national targets. The share of early leavers from education and training, aged 18-24 has declined steadily since 2010 and is only around half a percentage point above the 10 % target[6]. Nevertheless, the positive trend seems to have flattened during the past couple of years and some further policy effort will be necessary to reach the target.

Due to the increasing labour market participation and the job-rich nature of the recovery in recent years, the ***employment rate*** target of 75% may be within reach if the positive trend visible since the second half of 2013 continues[7]. Indeed, a number of Member States have already surpassed the target. Older workers and women continue to drive the increase in labour market participation. Yet, these positive developments hide still low employment rates in some Member States and among some population groups, highlighting the opportunity for stepping up reforms aimed at a better functioning of labour markets.

Against a background of improving economic performance and employment growth, there has been clear progress in the social situation. However, challenges remain with regards to the target of lifting 20 million people out of the risk of ***poverty and social exclusion***.

The number of people at risk increased in the early years of the strategy, particularly in the crisis period, turning to a slow decline after 2012. Since 2016 more substantial progress started to show, with more than 5 million people being lifted from poverty in one single year. Nevertheless, by the end of 2017 the number of people at the risk of poverty was only 4.2 million less than in 2008. As with the achievement of the employment target, the final outcome in this area is sensitive to the overall economic outlook.

Finally, in the domain of research and development, Europe continues to invest too little. Progress towards the ***R & D investment*** target has been on average positive but much slower than could have been hoped for. With the latest figures indicating a rate of R&D investment of slightly above 2% of GDP, the gap to the 3% target remains considerable and will not be closed by 2020.

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[4] 2017 being the latest available Eurostat figures.

[5] In 2018, the target population aged 30-34 with tertiary education reached 40.7%

[6] The share of early school leavers from education and training aged 18-64 stood at 10.6% in 2018

[7] The employment rate (20-64) reached 73.2% in 2018. Employment growth is expected to continue with a slower pace amid the weakening economic outlook

Annex: Graphs on CSR implementation[8] and Europe 2020 performance[9]

Figure 1: European Commission assessment of the level of implementation of the 2011-2018 CSRs

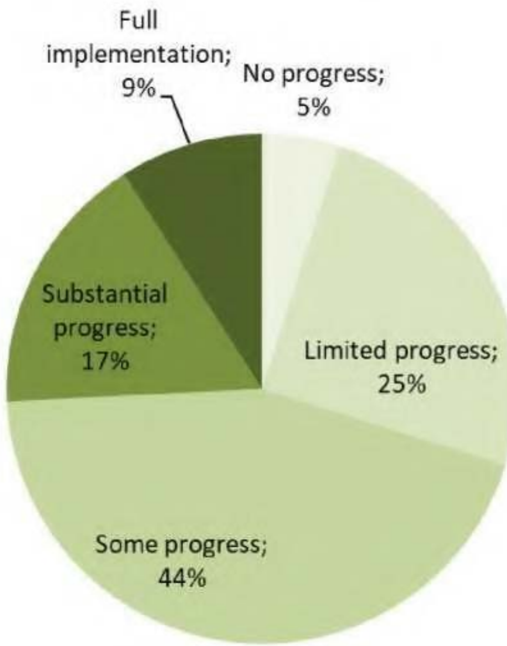
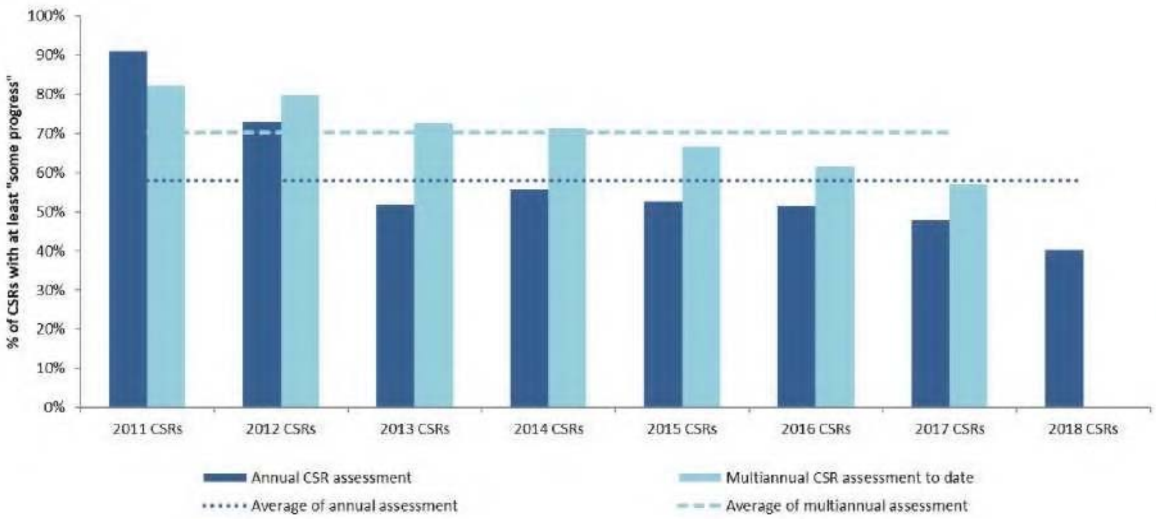


Figure 2: European Commission assessment Implementation of country-specific recommendations: annual assessment in each consecutive year since 2011 versus implementation to date



[8] Source: European Commission COM(2019) 500 final 2019. Chapeau Communication – 2019 European Semester country Specific Recommendations.
[9] Source: Eurostat indicators to support the Europe 2020 strategy (2019)

Figure 3. Progress towards the EUROPE 2020 target – Greenhouse gas emissions

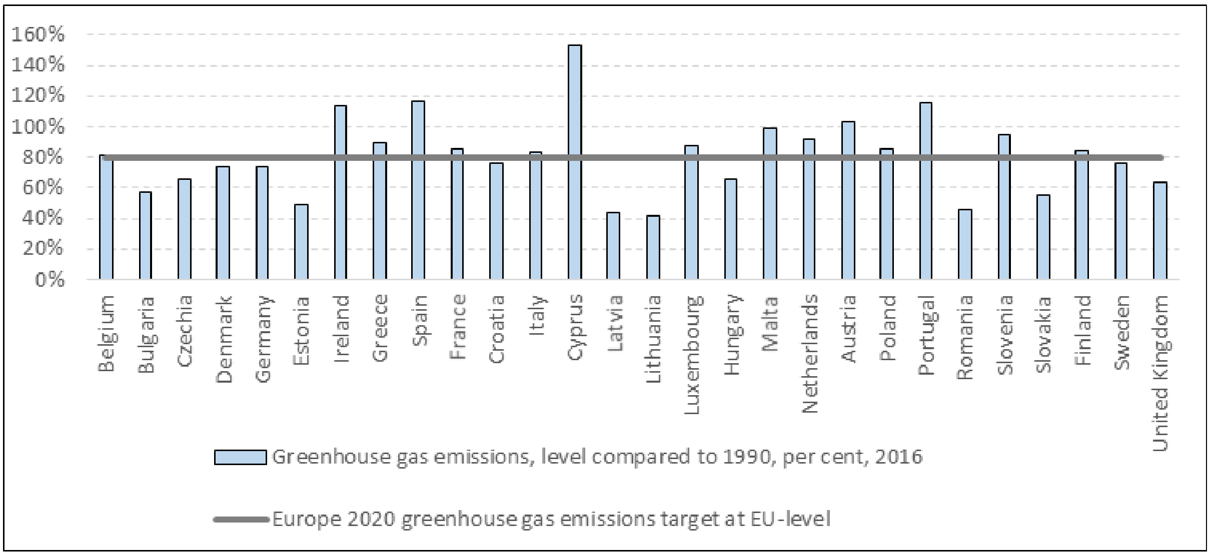


Figure 4. Progress towards the EUROPE 2020 target – Renewable energy

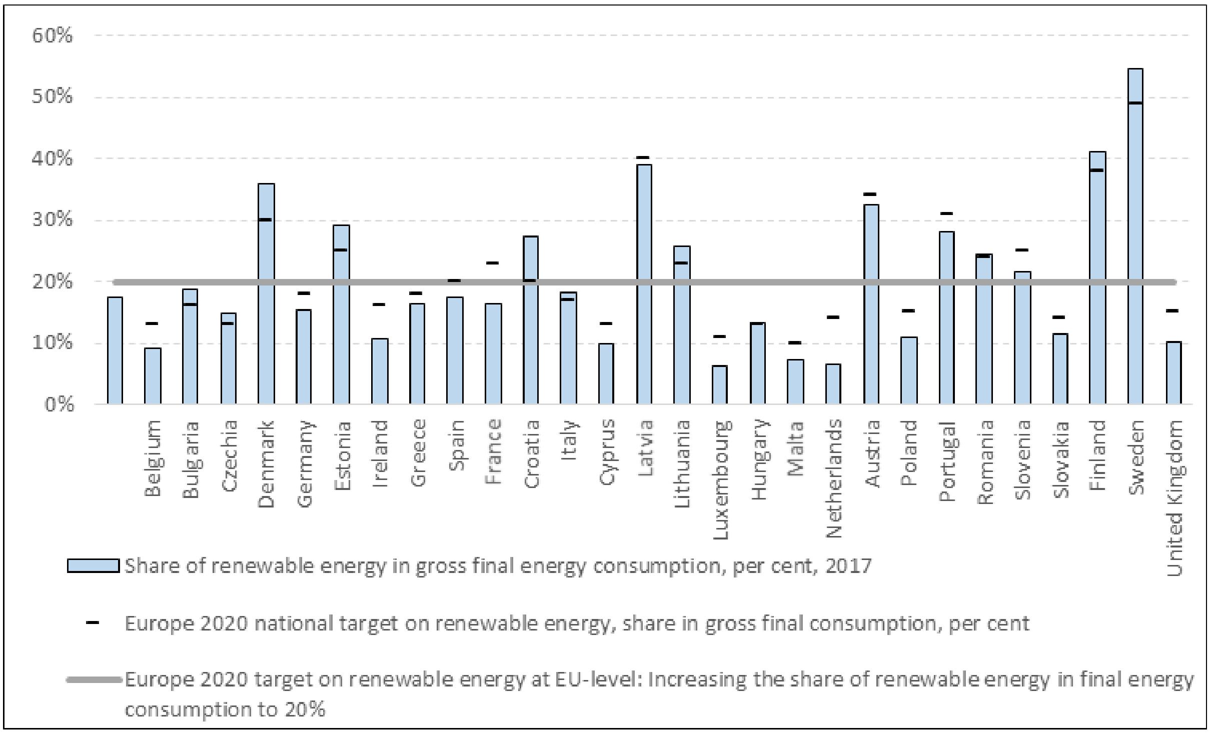


Figure 5. Progress towards the EUROPE 2020 target – Energy efficiency

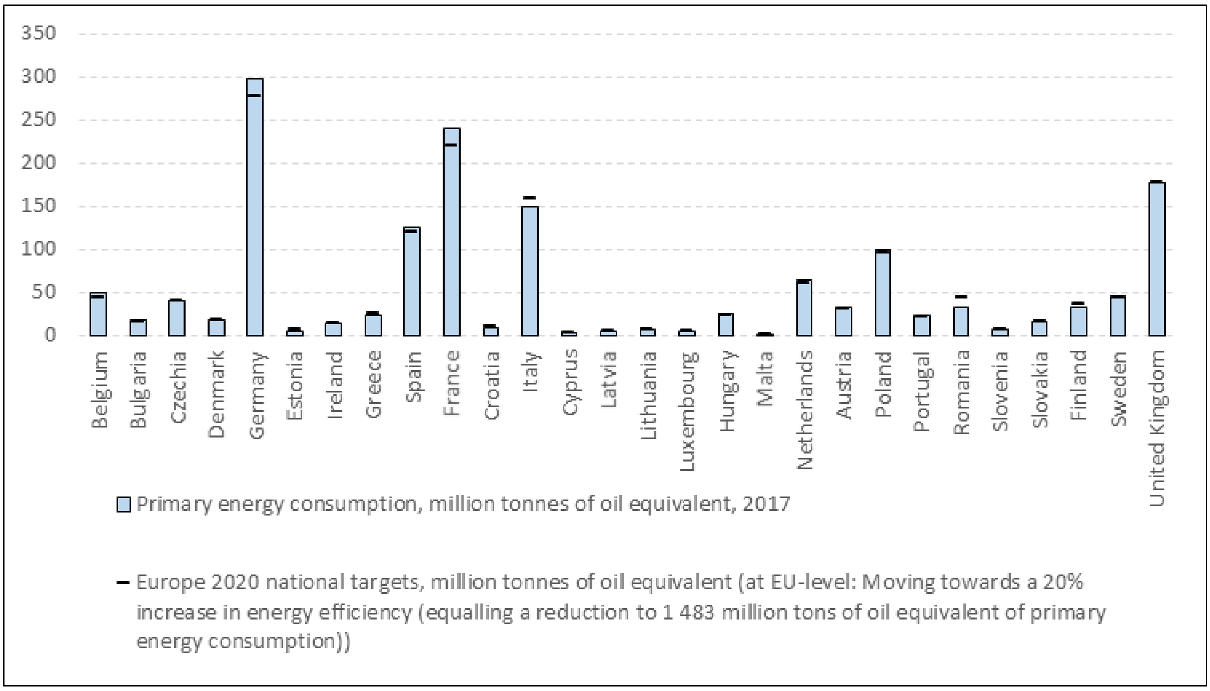


Figure 6. Progress towards the EUROPE 2020 target – Reducing early school leavers

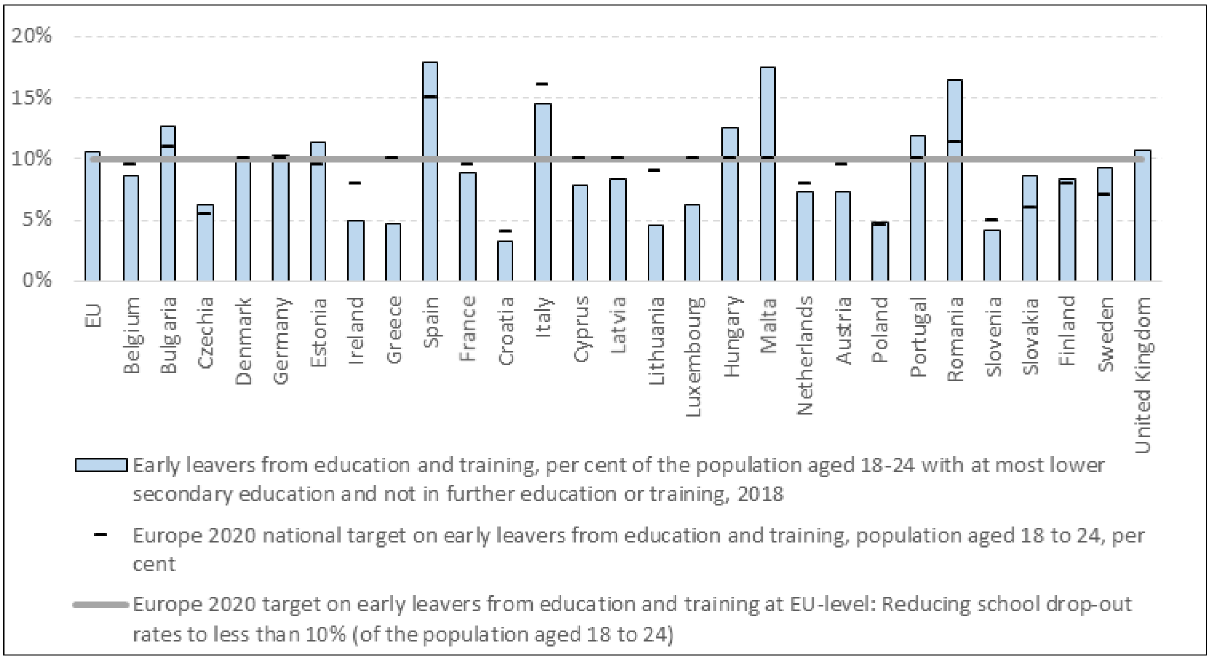


Figure 7. Progress towards the EUROPE 2020 target – Tertiary education attainment

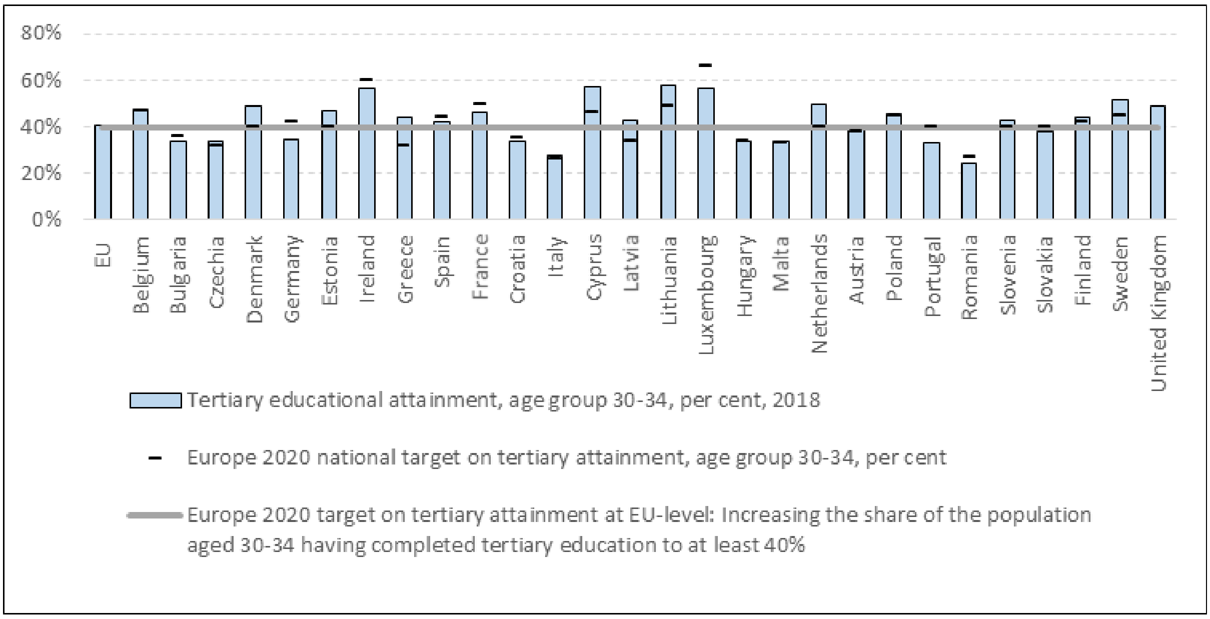


Figure 8. Progress towards the EUROPE 2020 target- Employment rate

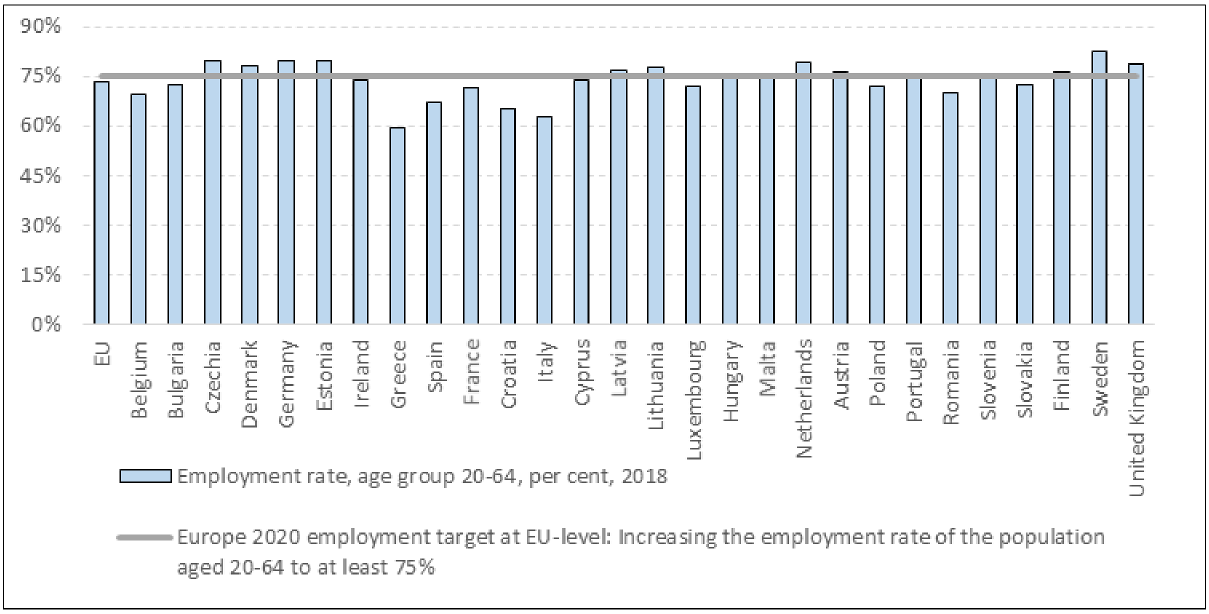


Figure 8. Progress towards the EUROPE 2020 target - Poverty and social exclusion

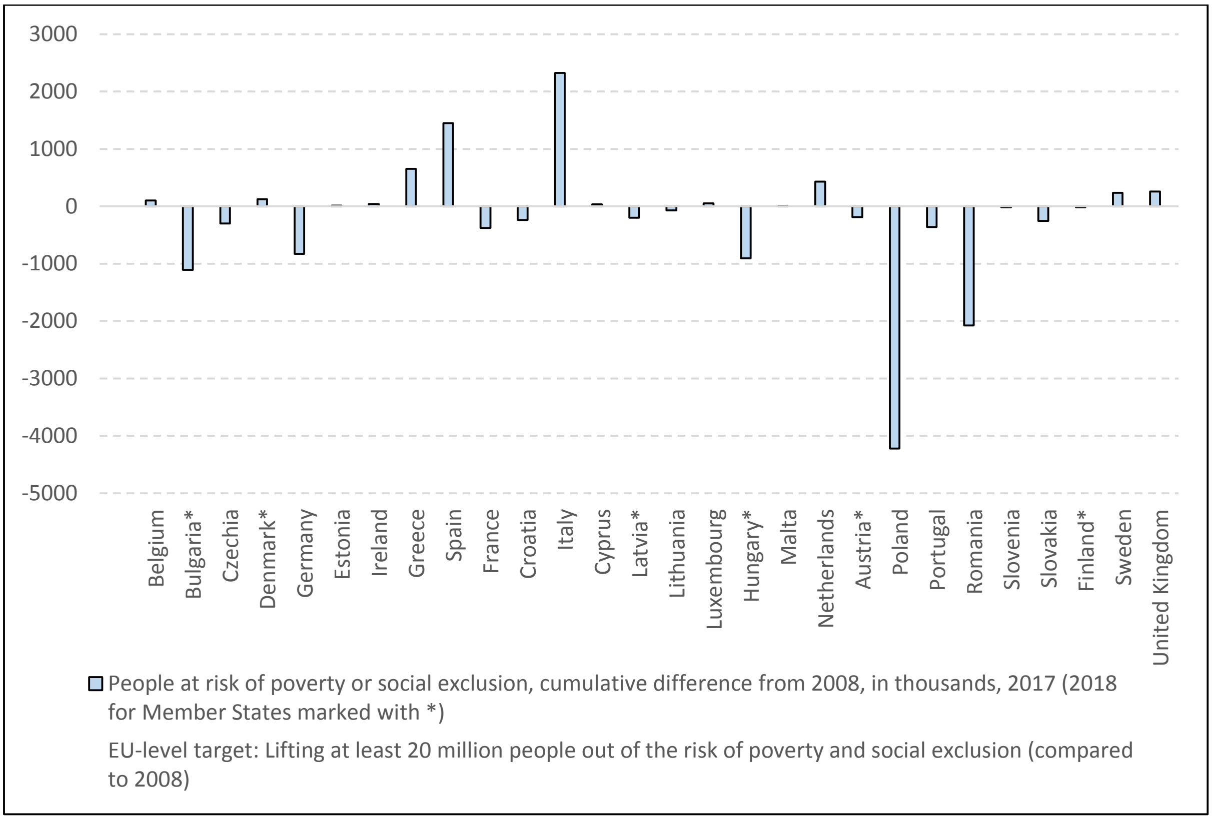


Figure 9. Progress towards the EUROPE 2020 target – Gross domestic expenditure on research and development